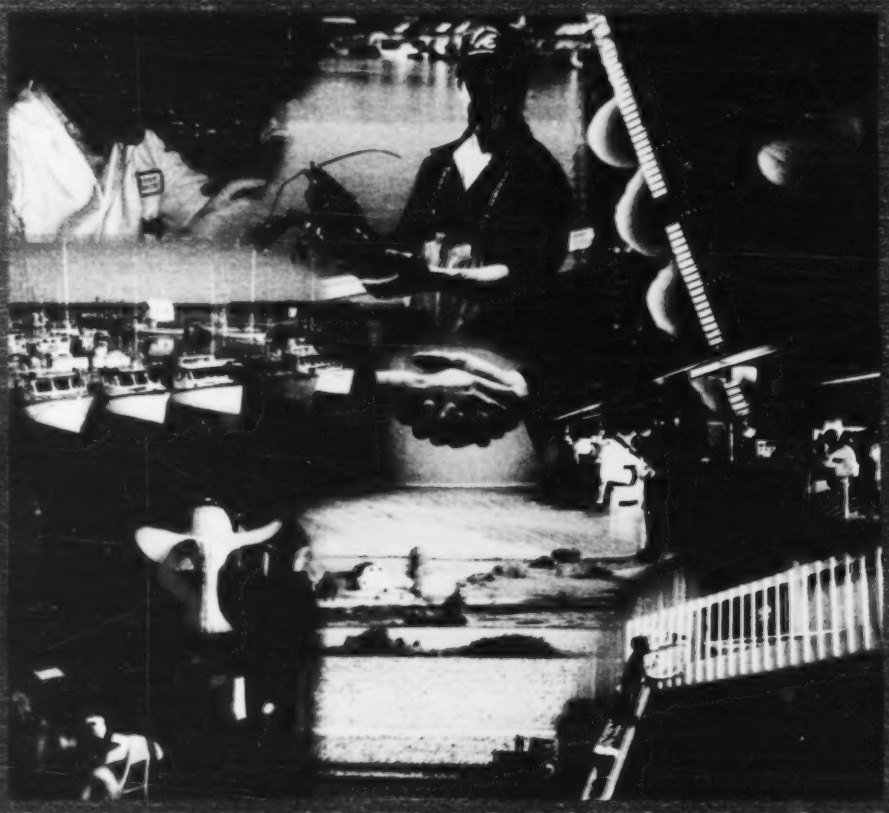
PEI Lending Agency Annual Report 2001-2002



Prince Edward Island
CANADA

103-03217/

Message From the Minister Designate

The Honourable J. Léonce Bernard
Lieutenant Governor of Prince Edward Island
P.O. Box 2000
Charlottetown, PE C1A 7N8

May It Please Your Honour:

Pursuant to the *PEI Lending Agency Act* and as minister designate, it is my privilege to submit the Annual Report of the PEI Lending Agency for the period ending March 31, 2002.

Respectfully submitted,

Patricia J. Mella
Provincial Treasurer

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Message From the Board Chair

June 30, 2002

The Honourable Patricia J. Mella
Provincial Treasurer
Province of Prince Edward Island

Dear Madame Minister:

On behalf of the board of directors of the PEI Lending Agency, I take pleasure in presenting you with this, the Annual Report of the agency for the fiscal year ending March 31, 2002.

This report is being presented pursuant to the *PEI Lending Agency Act* and Regulations.

Sincerely,

W.R. Noonan
Chairman, Board of Directors
PEI Lending Agency

Message From the Chief Executive Officer

Mr. William Noonan, Chairman
Board of Directors
PEI Lending Agency

Dear Mr. Noonan:

It is my pleasure to present the Annual Report of the PEI Lending Agency, for the fiscal year ending March 31, 2002.

While the year end financial results continue to be positive, the substantial growth in the portfolio experienced over the previous two years has been difficult to sustain. The immediate decline and overall reduction in the number of applications received by the agency following the events of September 11 was significant. Fortunately, first quarter results for the period ending March 31, 2003, indicate this trend has since reversed.

Access to capital funding continues to plague all the Island's economic sectors. Traditional financiers, such as the chartered banks and credit unions, are profit oriented and, in some cases, are restricted by their existing risk exposure in a particular industry sector. Price fluctuations in livestock, such as hogs, and agricultural products like potatoes, require the need for a longer term financier, such as the Lending Agency, who understands and helps ensure industry sustainability. Operators of tourist attractions and accommodations, in which there exists a short window of opportunity to operate, require more flexible repayment terms instead of conforming to standard repayment schedules.

Though the Lending Agency has many clients who maintain well-established and successful enterprises, we are often called upon to fill the role as a "lender of last resort," particularly when an Island industry may be experiencing specific challenges. The creativity of staff is often required to find solutions that will afford businesses a further opportunity to continue operations, or to provide the financing for projects that may be strategic or developmental in nature.

As the Province's principal lender, the Lending Agency must strike a balance which mitigates the risk and minimizes loan losses, while assisting in fulfilling the developmental objectives of government. Agency staff remain committed to finding alternative financing methods, while maintaining an acceptable level of risk and ensuring the integrity of the loan portfolio.

Respectfully submitted,

P.A. Wilson
Chief Executive Officer

Mandate of the PEI Lending Agency

The mandate of the PEI Lending Agency is to provide financial assistance, through loan agreements, in support of the Government's economic development strategy and to support enterprises that demonstrate reasonable viability, though are unable to access private sector financing on the terms and conditions required to meet their needs.

The agency is to operate as a responsible, professional lender, basing decisions or recommendations on sound lending practises. Under the authority of the *PEI Lending Agency Act* and Regulations, the board of directors, consisting of six private sector and two Government designated directors, provide agency staff with consistent guidance and direction. They strive to meet the needs of Island industries and individual businesses throughout the constantly shifting priorities and challenges which may evolve as a result of local provincial issues or from various constraints imposed by national and international markets.

Though the general mandate of the agency will remain unchanged, the focus may be altered in favour of specific industries, at Government's direction, or through identifiable gaps which may emerge in commercial bank financing. With their singular objective of profitability and with policy decisions which are generally nationally directed, there will always be areas or gaps left by the banks that the agency will be needed to fill.

As the Province's primary lending arm, the agency will undoubtedly continue to collaborate with other Government departments and corporations to structure financial programs to promote new development or to assist industry-specific difficulties. It continues to support the needs of our primary industries for capital purchases, expansion and operational expenses as well as encourages financing of non-traditional, potentially prosperous new enterprises.

The agency is unquestionably a higher risk lender and often lender of last resort. Where any business can continue to demonstrate a potential for viability, the agency is generally supportive of providing assistance as it will maintain current employment while offering the operator the opportunity for recovery. This is a role the agency has historically provided and numerous businesses have been ultimately successful due to this support in difficult times. Also, differing from the commercial banks' profit requirement, the agency's mandate is to strive for a break-even operation. If this can be achieved, there are numerous benefits to the province, in various capacities, but no cost to the taxpayer for the service. By sustaining businesses and maintaining employment, it reduces the drain on already stressed provincial and federal support programs. In addition, revenue from business, personal and sales taxes is maintained. These are all valuable considerations and are weighed, along with various other factors, when decisions are made by agency staff.

Corporate Profile

The PEI Lending Agency may provide term and working capital loans to eligible borrowers, in accordance with established policies, in the following sectors:

Small Business

Definition – Small business includes any person who:

(i) *carries on business, or intends to carry on business, in the province;*

(ii) *purchases a finished product from a supplier and resells that product without alteration;* and

(iii) does not employ more than 100 employees; or

(iv) did not have annual gross sales exceeding $10 million in the fiscal year immediately preceding an application made pursuant to Section 9 of the act.

This program is designed to meet the special needs of the Island's small business community and entrepreneurs for business acquisitions, expansions and debt consolidation.

The small business sector is not eligible for working capital loans.

Agriculture

Definition – Agriculture includes any person who:

(i) *carries on business, or intends to carry on business, in the province;*

(ii) owns or will acquire farm assets with the loan proceeds pursuant to the act or the regulations; and

(iii) is actively engaged in farming or intends to work actively at producing farm products.

It is the objective of the agency to encourage increased production of both established and new variety agricultural products, as well as, improved marketing facets and techniques for PEI agricultural products. This may include better storage, handling, grading and packaging facilities.

Tourism

Definition – Tourism includes any person who:

(i) *carries on business, or intends to carry on business, in the province; and*

(ii) operates a business, other that a Bed & Breakfast establishment as defined in the Tourism Industry Act Regulations (EC267/99), that holds a valid tourism establishment licence issued pursuant to the Tourism Industry Act Regulations.

Projects to expand the shoulder tourist season and development of integrated recreational complexes which would feature entertainment facilities, lodging and dining facilities are encouraged. In some cases, loans may be granted for accommodation units which are converted to other uses during off-season periods.

This program is designed to meet the special needs of Island tourism operators for business acquisitions, expansions and debt consolidation, refurbishment of fixed assets and in some cases working capital for seasonal startup.

Bed & Breakfast operations, as defined by the *Tourism Industry Act* Regulations, are ineligible to borrow from the agency.

Manufacturing and Processing

Definition – Manufacturing and processing includes any person who:

(i) *carries on business, or intends to carry on business, in the province; and*

(iii) operates a business which produces a product by mechanical method from a raw material that is altered to add value.

Loans are available to finance land and buildings, specialized equipment, and in some cases, production inventory.

Fisheries and Aquaculture

Definition – Fisheries and Aquaculture includes any person who:

(i) *carries on business, or intends to carry on business, in the province; and*

(ii) is licensed or qualified to obtain a licence or aquaculture permit issued by the federal Department of Fisheries and Oceans, for any of the commercial fisheries or aquaculture industries in the province.

The objective of the agency is to provide term financing, recapitalization and operating lines of credit to assist applicants in the commercial fishery and/or aquaculture industry. The agency takes a particular interest in supporting projects that have a potential commercial viability for under-exploited species of finfish, shellfish and sea plants.

Information Technology

Definition – Information technology includes any person who:

(i) *carries on business, or intends to carry on business, in the province; and*

(ii) operates a business that derives at least 60 per cent of revenue from software publishing, computer systems design and related services, the provision of online information services, or the manufacture of computer and peripheral equipment or related electronic components.

The objective of the agency is to provide term financing and operating lines of credit to assist borrowers purchasing fixed assets and for production and marketing expenses.

Aerospace

Definition – Aerospace includes any person who:

(i) carries on business, or intends to carry on business, in the province;

(ii) owns or will acquire assets of an aviation or aerospace-related business with loan proceeds received pursuant of the act or the regulations; and

(iii) is actively engaged in or intends to work actively in an aviation or aerospace-related business.

The agency provides both term financing for fixed asset acquisitions and operating lines of credit to finance account receivables and inventory purchases.

Year in Review

The agency experienced a decrease in the number of loan applications received for the year ending March 31, 2002, over the previous year. This is the first decrease in applications since the agency was re-established as a separate crown corporation in January of 1999. There was a total of 148 requests for funding this year, down from 196 received last year. This 24 per cent decrease is, in all probability, a reflection of the financial fallout succeeding the events of September 11, coupled with the fact it followed on the heels of an economic slowdown in North America. For the months of September through November of 1998, the agency received 29 applications; in 1999 and 2000, 37 and 49 were received, respectively. During the same period this year, only 16 were received. The numbers obviously plummeted significantly during that time period.

As for overall net growth in the value of the Lending Agency's portfolio at March 31, 2002, an increase of five per cent was realized, for a value of nearly $7.5 million. This net increase would take into account the value of new loans and financial restructuring, less what has been paid down or paid out on existing loans.

The largest growth was experienced in the agriculture sector, up 15 per cent year over year or $4.2 million, followed by tourism (10 per cent), small business (eight per cent) and manufacturing and processing (seven per cent). Fisheries and aquaculture, on the other hand, recorded a decrease of $1,214,000 or 9 per cent. The growth experienced in the agriculture portfolio can be attributed to financial restructuring and consolidation of debt which was required by some farmers following the potato wart crisis in 2000 and drought of 2001.

At year end, the agency's loan arrears, which represents payments overdue, when expressed as a percentage of the total portfolio, equates to 6.9 per cent, an increase of 5.2 per cent since March 31, 2001. The total outstanding balance owing on these accounts, as a percentage of the total portfolio, equates to 12.1 per cent, or $17.8 million. These arrears figures are distributed over 69 of the agency's 543 borrowing clients. It should be noted that this figure includes loans which have matured and, for one reason or another, may not have been renewed by year's end. In those cases, the entire outstanding balance would be shown in arrears. Additionally, these figures include non-current accounts whereby the entire loan balance is also shown as an arrears amount, not only the payments outstanding. By the end of May 2002, the number of clients in arrears was reduced to 59 and the actual arrears outstanding, down nearly $3.4 million to $7.7 million, or 5.3 per cent of the total portfolio.

Operationally, the agency has again exceeded its projected income, from all sources, forecasted to be a little over $11,369,000 to the end of March 31, 2002. Actual results were $11,722,333. This includes the annual grant from the Province of $733,900, an amount which is determined during the budget process. This monetary allotment from the Province is provided to fund any losses experienced by the agency from operations, once the projected income from all sources, less all operational costs including loan losses, are considered. As indicated in the accompanying financial statement, prepared by Arsenault Best Cameron Ellis, the agency has not required the use of all of these funds for losses as a direct result of its continued efforts to effective portfolio management.

The agency's budgeted operating expenses, before loan loss provision and interest expense for 2001/2002 were forecasted to be $1,133,940, an increase of $102,024 year over year. Actual expenses incurred were $1,052,784, or just $20,868 more than last year. The largest contributing factor to the agency's expenses is the interest paid to the Province on borrowed funds. Due to favourable market conditions over the year and close monitoring on short-term borrowings, the agency exceeded its budgeted $8,317,000 by only $16,680, while interest revenue surpassed projections by nearly $308,000 or 2.99 per cent.

During 2001/2002, the agency incurred actual loan losses of $1,062,597 against a budgeted provision for possible losses of $1,924,212. The unused portion of this allocation, $861,615.00, plus an additional $325,486 was repaid to the Provincial Treasury to be held for future use, if needed.

As indicated by the accompanying financial statements, for the period ending March 31, 2002, the overall year end operating results for the PEI Lending Agency remained positive, with a recorded net income of $102,459.

Fisheries and Aquaculture

In fiscal year 2001/2002, 20 applications were approved under this industry sector, totalling $1.6 million. Of those applications, seven were for clients involved in the mussel industry, two were for oyster operations and the remaining 11 were for clients involved in the traditional commercial fisheries. The cultured oyster industry continued to encounter the problems this past year, as were first experienced in 2000, with predators, poor spat collection results and the inability to access new sites. These difficulties have resulted in a failure, for a number of fisherman financed under the Shellfish Aquaculture Financing Program, to achieve full production within the projected five-year schedule, as was previously envisioned.

For this reason, in February 2001, the PEI Department of Fisheries, Aquaculture and Environment contracted a consulting firm to conduct a financial assessment of the cultured oyster industry. A number of the agency's borrowers participated in this assessment which examined, not only the current financial status, but also provided an evaluation of the prospective business outlook for this industry. In conclusion of the report, the consultant provided a number of recommendations – one of which identified the need for direct financial assistance to those borrowers within the agency's Shellfish Aquaculture Financing Program. Specifically, assistance should be in the form of an interest buy down. The consultant also recommended that the program allowance of five years to reach full production should be extended before loan repayment commenced. A further conclusion of the study identified that some growers would still be unable to continue, without significant financial intervention from Government.

A review of the status on the agency's shellfish clients was also completed, through site inspections over the 2001 season, by staff of the agency and of the Department of Fisheries, Aquaculture and Environment. Based on findings of this assessment, combined with information provided by the consultant's report, a joint submission was presented to Treasury Board by the Department of Fisheries, Aquaculture and Environment and the PEI Lending Agency. The recommendations of this submission, which included the interest buy down and an extension to the five-year term, were adopted by Government. Government also supported the recommendation to discontinue offering the program.

Despite the setbacks, most study participants felt the prognosis for the cultured oysters remains good, as most of the early development has now been completed and techniques have been refined. However, borrowers under this program will continue to require close monitoring and extended repayment terms in attempt to minimize potential losses to this sector. Of the 28 borrowers under the program, there is no doubt some growers will be unable to continue and losses in the portfolio are expected in fiscal 2002/2003.

The PEI Lending Agency continues to provide operating capital and long-term financing, under normal repayment terms, to the traditional commercial fishery, mussel farming enterprises and those operations in oyster aquaculture that best demonstrate potential for viability.

Agriculture

The agriculture sector represented the largest growth in the agency's portfolio during 2001/2002, with 34 approvals and a net increase of approximately 14.7 per cent over the previous year, from $27.8 million in outstanding loans at March 31, 2001 to $31.9 million outstanding at March 31, 2002. Of these approvals, 24 applications were for working-capital purposes, while the remainder were of a capital nature.

The need for the agency's continued support to the agriculture sector remains apparent. It is particularly evident in the requirement for working capital loans to the potato industry. The discovery of Potato Wart in 2000 severely hurt the industry and was particularly devastating to those producers growing for the export market. The serious drought during the summer of 2001 again resulted in problems for the industry through very low yields. This left contract growers unable to fulfil their contracts and, subsequently, to repay their operating lines of credit. For those that carried crop insurance, their losses were reduced but substantial losses still occurred, nonetheless. The poor yields of 2001 may also adversely affect crop insurance guarantees in future years.

By year's end, the agency observed the effects of the setbacks to growers by way of requests to provide necessary capital to sustain their farming operations; financing that would have ordinarily been provided by the chartered banks and credit unions. Unfortunately, the agency is not always able to accommodate them all.

The hog industry is slowly recovering from the severe decline in prices and losses experienced by producers in the late 1990s. A financing program was initiated in 1999 and again in 2000 in conjunction with the Department of Agriculture and Forestry, when the agency provided operating capital to assist the industry during this crisis. The financial obligations, under this program, are being met. Further expansion continues in the industry as loans, through Garden Province Meats, are provided to producers. As in other provinces, the trend has moved toward support for larger hog operations, requiring a substantial increase in the amount of funding.

Government's objective of developing 6,000 acres under the Blueberry Development Program was reached in 2000/2001; and, therefore, in June of 2001 Treasury Board directed the program no longer be offered. There are approximately 67 clients who have borrowed funds under the program, with total loans exceeding $12 million which represents approximately 44 per cent of the agency's total outstanding agricultural portfolio. Based on data available at inception of the program, it was envisioned that full commercial viability of the land would be achieved by the end of the first five years. It has been since recognized that this is not achievable. During the past fiscal year, an assistance strategy for program participants was approved and is being funded by the Department of Agriculture and Forestry. It is intended to assist in alleviating the increased interest expense associated with the loan program. While the agency will continue to consider applications for blueberry development projects, they will be subject to the policies of standard agricultural loans.

At the same time, Treasury Board approved an enhancement to the cranberry program which permitted an increase in the allowable limit for funding, per client, from five acres to 10 acres enabling borrowers to obtain the additional capital needed to expand their operations. The agency presently maintains $1.75 million in outstanding cranberry loans, representing funding to eight clients with a total of 47 acres currently under development.

The financial knowledge and experience of our agricultural lenders, positions the agency well to provide the necessary support to traditional producers, while also offering a valuable contribution to the agricultural industry through evaluation of new ventures in alternative crops.

Manufacturing and Processing

The agency's M&P portfolio is very diverse in terms of the associated industries, providing highly skilled employment for Islanders and migrants to PEI. Some of these industries include biochemical, pharmaceutical, biomedical, mass-transit vehicle production, natural resource-based processing, metal fabrication, furniture and commercial fixturing, to name a few. Coupled with this diversity, a large portion of the revenue garnered from this sector is sourced off-island and in many cases, foreign markets, thus contributing to our export business and GDP.

Investment into this sector grew by 7.5 per cent year over year with loan exposure at year end totalling $43,650,463, representing 30 per cent of the agency's total portfolio. Growth comprised 26 applications for slightly more than $9,000,000 of which $5,700,000 received funding approval.

The health of the portfolio is strong with 83 per cent achieving a satisfactory risk assessment while 17 per cent are classified as higher than normal risk, at the present time. From an economic standpoint, with the recent resurgence in the economy, the outlook for this sector is strong.

Aerospace

Borrowers in this category of the economic sector have historically been included under the comments of the manufacturing and processing sector. However, this industry represents a significant percentage of the agency's portfolio (16 per cent) requiring, we believe, separate comment. Companies classified in this sector are involved directly with aviation or aerospace related business. Currently, the agency provides financing to companies involved in repair and overhaul of fixed-wing aircraft, original equipment manufacturing and commercial passenger service.

Over this past year, the agency entertained five applications to this sector for financing totalling $2.3 million, of which three were approved for slightly more than $1,000,000, one was withdrawn, and one was declined. Overall, there was no increase in this portfolio, as the loan exposure in this sector remained comparable to March 31, 2001, at slightly more than $22.5 million.

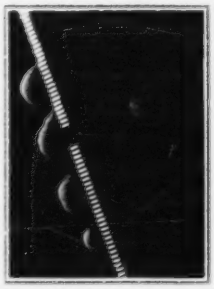
The disaster of September 11 had an immediate impact on the original equipment manufacturers and airline industry itself. The smaller carriers and "feeder" airlines did not escape unscathed. However, the repair and overhaul operators, such as those located in Slemon Park, have recovered much of the lost business and, in fact, have seen an increase in their workforce.

While the monitoring of all accounts to which the agency provides financing is part of the ongoing risk management process, our aerospace portfolio is monitored very closely due to industry volatility and the non-commodity based assets for which we extend financing. The health of this portfolio mirrors that of manufacturing and processing, in that 86 per cent of the portfolio is considered very healthy and the remaining 14 per cent demonstrates a strong improving trend toward more acceptable lending risk.

To date, the Province has reaped significant returns on its investment into the aerospace industry, providing long-term skilled employment resulting in local economic spin off.

Information Technology (IT)

This emerging sector continues to be a very volatile industry for which all financial institutions experience difficulty in providing debt financing. Companies operating within this industry can typically achieve profitability quickly, or quickly cease operations due to the requirement for significant investment, primarily into key areas, including management, research and development and marketing.



The nature of the assets for which financing is required are typically identified as intellectual property and other intangibles, where the basis of loan adjudication must place heavy reliance on the business plan, management team and the plausibility of strong profitability, particularly when compared to traditional asset-based financing. IT companies are better suited for venture capital, angel and other equity financing rather than debt financing because of the risk/return ratio. In lieu of our mandate to also encourage the IT sector on PEI, lending to this sector has been exercised very prudently and loans extended at higher than normal risk.

The agency's experience with this sector has been sporadic in terms of success versus failure stories. Over the past year, the agency has not received any applications for this sector, retaining a portfolio totalling $3,081,000 at year end, or two per cent of the total loan portfolio.

With the establishment of Technology PEI, the construction of the Atlantic Technology Centre and the continuing development of this industry on PEI, it is our intention to continue to provide financial assistance, while at higher risk, may be deemed strategic and in accordance with sound lending principles.

Tourism

Tourism PEI's annual report for fiscal 2001, estimated that a total of 1.185 million pleasure and business visitors spent a total of $328.2 million while vacationing or conducting business in Prince Edward Island. The agency continues to support this vital sector of our economy. During the period under review, the agency processed seven capital loans totalling $1.2 million and overall growth of 10.9 per cent. The sectorial total is now just over $16 million. The majority of these funds were used to either purchase existing accommodation operations or for upgrades.

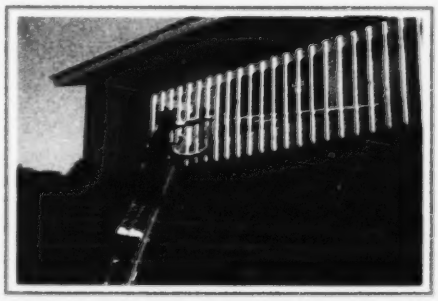
Over the last three years, the agency has supported the initiatives of Government by providing additional funds to existing operators to upgrade their facilities in order to present a better product to visitors. Conditional upon further advances, the agency has established guidelines for borrowers. One of these guidelines requires that a business being purchased must have, at minimum, a 2 ½ star rating under the Canada Select Accommodation Rating Program. Where the agency is requested to finance upgrades, the subject property must achieve this rating at completion.

Over the last six years there has been steady growth in capital expenditures in the tourism sector, with new construction or capital improvements. The results of a recent study on the tourism industry conducted by the Atlantic Canada Opportunities Agency, indicate there is now sufficient fixed roof accommodations in the marketplace to service market demands. Subsequently, their financing is now limited to renovations and upgrades to existing units. Though the agency will continue to evaluate all requests on a case-by-case basis, it is expected that growth within the portfolio will consist mainly of upgrades to existing operators, due to the federal policy.

Small Business

For fiscal 2001-2002, the agency approved 14 applications for loans in this sector totalling $2,635,000. A further $2,015,000 were either declined for credit purposes or were withdrawn by the applicant. All loans approved were of a capital nature.

Overall, the small business portfolio experienced a growth of eight per cent over fiscal 2001, with a total outstanding portfolio at year's end of $14,034,545 representing 68 borrowing clients.



Bilan de l'année

Comparativement à l'année précédente, l'Agence a reçu un moins grand nombre de demandes de prêt pour l'année se terminant le 31 mars 2002. Il s'agit de la première diminution depuis que l'Agence est devenue une société d'État en janvier 1999. Au total, nous avons reçu 148 demandes de financement cette année, comparativement à 196 l'an dernier. La diminution de 24 per cent reflète sans doute le creux économique qui a suivi les événements du 11 septembre, emboîtant le pas à un ralentissement économique qui avait affecté toute l'Amérique du Nord. Pour le trimestre de septembre à novembre, l'Agence a reçu 29 demandes en 1998, 37 en 1999, et 49 en 2000. Pour la même période cette année, seulement 16 demandes ont été reçues. Les chiffres indiquent donc une diminution importante des demandes pour cette période de l'année.

Pour ce qui est de la croissance de la valeur nette du portefeuille de l'Agence de crédit au 31 mars 2002, on remarque une augmentation de 5 per cent, pour une valeur nette de 7,5 millions. Cette augmentation nette tient compte de la valeur des nouveaux prêts et de la restructuration financière, mais n'inclut pas les remboursements ou les paiements effectués sur des prêts existants.

La croissance la plus élevée s'est effectuée dans le secteur de l'agriculture, avec une augmentation de 15 per cent par rapport à l'an dernier ou 4,2 millions de dollars, puis dans le secteur du tourisme (10 per cent), de la petite entreprise (8 per cent) et de la fabrication et de la transformation (7 per cent). D'autre part, le secteur de la pêche et de l'aquaculture a connu une baisse de 1 214 000 $, soit 9 per cent. La croissance dans le secteur agricole s'explique par la restructuration financière et la consolidation des dettes de certains agriculteurs après la crise de la galle verruqueuse de 2000 et la sécheresse de 2001.

À la fin de l'année, les arriérés de l'Agence, c'est-à-dire les paiements non reçus, représentent 6,9 per cent du portefeuille, une augmentation de 5,2 per cent par rapport au 31 mars 2001. Le total des soldes impayés de ces comptes s'élève à 12,1 per cent du portefeuille total, soit 17,8 millions de dollars. Les arriérés se partagent entre 69 des 543 clients emprunteurs de l'Agence. Il faut noter que ces chiffres incluent les prêts échus qui, pour une raison ou une autre, n'ont pas été renouvelés à la fin de l'année. Dans un tel cas, le total du montant dû apparaît dans les arriérés. De plus, les données incluent les prêts en souffrance pour lesquels le solde total du prêt, et non seulement les paiements en souffrance, apparaît dans les arriérés. À la fin du mois de mai 2002, le nombre de clients en souffrance est réduit à 59 et le solde des arriérés s'élève à 7,7 millions de dollars ou 5,3 per cent du portefeuille total, soit une réduction de près de 3,4 millions de dollars.

Du côté des opérations, l'Agence a une fois de plus excédé ses revenus projetés, tous secteurs confondus, soit 11 369 000 $ à la fin mars 2002. Les résultats actuels s'élèvent à 11 722 333 $. Le montant comprend la subvention annuelle de 733 900 $ accordée par le gouvernement provincial et prévue au budget annuel. La subvention vise à financer toute perte de l'Agence engendrée par ses opérations, une fois que les coûts d'opération, y compris les pertes sur prêts, sont déduits du total des revenus projetés. Tel qu'expliqué dans les états financiers ci-joint, préparés par Arsenault Best Cameron Ellis, l'Agence n'a pas eu besoin d'utiliser la totalité de cette subvention pour financer ses pertes en raison des efforts constamment déployés pour améliorer la gestion du portefeuille.

Les prévisions en matière de dépenses d'exploitation de l'Agence, avant le provisionnement des pertes sur prêts et les dépenses en intérêts, étaient de 1 133 940 $, une augmentation de 102 024 $ par rapport à l'an dernier. Les dépenses réelles s'élevaient à 1 052 784 $, soit seulement 20 868 $ de plus que l'an dernier. La dépense la plus importante de l'Agence était constituée des intérêts payés sur des emprunts au gouvernement provincial. Étant donné les conditions favorables du marché au cours de l'année et la surveillance étroite des emprunts à court terme, l'Agence n'a excédé ses prévisions de 8 317 000 $ par seulement 16 680 $ alors que les revenus projetés ont été dépassés de près de 308 000 $ ou 2,99 per cent.

Au cours de l'année 2001/2002, les pertes réelles sur prêts s'élevaient à 1 062 597 $ contrairement aux prévisions de pertes possibles de 1 924 212 $. La différence inutilisée de cette affectation, soit 861 614 $, plus 325 486 $, a été remise au Trésor de la province qui la converse pour une utilisation ultérieure, si le besoin se présente.

Tel qu'indiqué dans les états financiers ci-joint, les résultats d'opération de l'Agence de crédit de l'Î.-P.-É. pour la période se terminant le 31 mars 2002 sont positifs et présentent un revenu net record de 102 459 $.

Pêches et Aquaculture

Au cours de l'exercice financier de 2001/2002, 20 demandes ont été approuvées dans ce secteur, pour un total de 1,6 millions de dollars. De ces demandes, 7 venaient de clients oeuvrant dans le domaine des moules, 2 du domaine des huîtres et 11 de la pêche commerciale traditionnelle. L'industrie de l'ostréiculture a connu les mêmes problèmes qu'en 2000 cette année, soit les prédateurs, les faibles captages de naissain et l'impossibilité d'accéder à de nouveaux sites. Ces difficultés ont empêché un certain nombre de pêcheurs financés par le Programme de financement de la conchyculture d'atteindre les résultats prévus dans le plan quinquennal projeté.

Pour cette raison, en février 2001, le ministère des Pêches, de l'Aquaculture et de l'Environnement a embauché une société d'experts-conseils pour mener une évaluation financière de l'industrie de l'ostréiculture. Un certain nombre d'emprunteurs auprès de l'Agence ont participé à l'étude qui examinait non seulement l'état financier actuel de l'industrie, mais qui offrait aussi des projections d'avenir dans le domaine. Dans la conclusion de son rapport, l'expert-conseil a fait ses recommandations dont l'une vise le besoin d'une aide financière directe pour les emprunteurs dans le cadre du Programme de financement de la conchyculture de l'Agence de crédit. Plus particulièrement, une aide devrait être offerte sous forme d'un achat d'une réduction d'intérêts. L'expert-conseil recommandait aussi de prolonger le délai de cinq ans pour atteindre la pleine production avant d'avoir à commencer le remboursement du prêt. Une autre conclusion de l'étude expliquait comment certains pêcheurs ne pourraient continuer d'opérer sans une intervention financière importante de la part du gouvernement.

Une étude du statut des clients de l'Agence dans le secteur des crustacés a aussi été effectuée par le personnel de l'Agence et du ministère des Pêches, de l'Aquaculture et de l'Environnement par l'entremise de l'inspection de sites pendant la saison 2001. Les résultats de cette évaluation, combinés aux renseignements contenus dans le rapport de l'expert-conseil, ont permis à l'Agence de crédit de l'Î.-P.-É. et au ministère des Pêches, de l'Aquaculture et de l'Environnement de soumettre une proposition conjointe au Trésor de l'Î.-P.-É. Les recommandations contenues dans cette proposition, dont la possibilité d'achat d'une réduction d'intérêts et l'extension du délai de cinq ans, ont été adoptées par le gouvernement. Ce dernier appuyait aussi la recommandation de mettre fin au programme.

Malgré les obstacles, la plupart des participants à l'étude semblaient croire que les pronostics pour la culture des huîtres étaient positifs, puisque les premières étapes de développement sont franchies et que les techniques sont maintenant perfectionnées. Toutefois, les emprunteurs dans le cadre de ce programme vont continuer à exiger une surveillance étroite et des délais de remboursement accrus pour tenter de minimiser les pertes potentielles dans ce secteur. Il ne fait aucun doute que certains des 28 emprunteurs dans le cadre du programme ne pourront continuer et des pertes sont prévues au budget de 2002/2003.

L'Agence de crédit de l'Î.-P.-É. continue à prêter des fonds d'exploitation et à accorder des prêts à long terme assortis de modalités de remboursement normales dans les secteurs de la pêche commerciale traditionnelle, de la myticulture et de l'ostréiculture dans les cas d'entreprises qui peuvent démontrer leur durabilité.

Agriculture

Le secteur de l'agriculture est le secteur ayant connu la plus grande croissance dans le portefeuille de l'Agence en 2001/2002, avec 34 approbations et une augmentation nette d'environ 14,7 per cent par rapport à l'année précédente, pour passer de 27,8 millions en prêts non remboursés au 31 mars 2001 à 31,9 millions au 31 mars 2002. De ces demandes, 24 visaient un crédit de fonds de roulement, tandis que les autres étaient des emprunts pour immobilisations.

Il semble que le besoin d'appui financier de la part de l'Agence dans le secteur agricole soit toujours présent.

Il se fait particulièrement sentir dans les besoins de crédits de fonds de roulement dans le domaine de la pomme de terre. Le problème de la galle verruqueuse découvert en 2000 a sévèrement atteint l'industrie, particulièrement les producteurs qui exportent leurs récoltes. La sécheresse sévère de 2001 a aussi contribué aux problèmes de l'industrie en réduisant le rendement des cultures. Par conséquent, les producteurs à contrat n'ont pu honorer leurs engagements et, par le fait même, n'ont pu rembourser leur marge de crédit d'exploitation. Les pertes étaient moindres pour ceux et celles qui profitaient d'une assurance-récolte, mais d'importantes pertes ont tout de même eu lieu. En outre, le faible rendement de 2001 peut avoir des effets négatifs sur les programmes d'assurance-récolte dans les années à venir.

À la fin de l'année, l'Agence observait les effets de ces revers sur les agriculteurs par l'entremise des demandes effectuées pour obtenir les fonds nécessaires à l'exploitation de leurs fermes; du financement qui serait généralement obtenu auprès des banques à charte et des caisses populaires. Malheureusement, l'Agence n'est pas toujours en mesure de répondre aux besoins de tous.

L'industrie du porc se remet tranquillement de l'importante chute des prix et des pertes survenues à la fin des années 1990. Un programme de financement a été offert en 1999 et en 2000 conjointement avec le ministère de l'Agriculture et des Forêts, alors que l'Agence fournissait des fonds d'exploitation pour aider l'industrie à passer au travers de la crise. Les obligations financières de ce programme sont respectées et l'expansion de l'industrie se poursuit grâce aux prêts accordés aux producteurs par Garden Province Meats. Comme dans les autres provinces, la tendance est d'appuyer les méga-porcheries, ce qui entraîne une augmentation importante des montants prêtés.

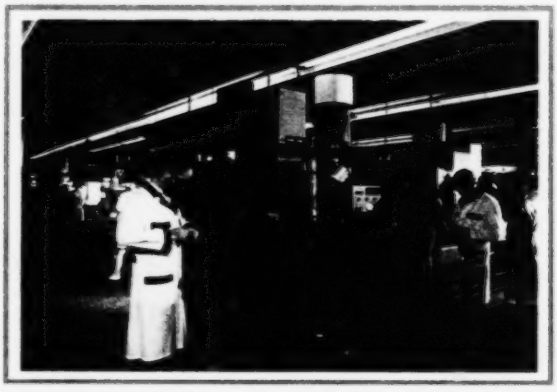
L'objectif du gouvernement d'atteindre les 6 000 acres de culture de bleuets en vertu du Programme de développement du bleuet a été atteint en 2001/2002. Ainsi, en juin 2001, le Conseil du Trésor a suggéré de mettre fin au programme. Environ 67 clients ont effectué des emprunts dans le cadre de ce programme et le total des prêts s'élève à plus de 12 millions de dollars, soit environ 44 per cent du portefeuille total de l'Agence dans le domaine de l'agriculture. Selon les données disponibles lors de la mise en oeuvre du programme, on s'attendait à ce que la viabilité commerciale soit atteinte au bout de 5 ans, mais on se rend compte aujourd'hui que cela n'est pas possible. Au cours de la dernière année financière, une stratégie de soutien aux participants du programme a été approuvée et financée par le ministère de l'Agriculture. La stratégie vise à atténuer l'augmentation des intérêts liés au programme de financement. Bien que l'Agence continue à étudier les demandes de prêts pour les projets de développement du bleuet, ceux-ci seront soumis aux politiques des prêts agricoles réguliers.

Dans un même temps, le Conseil du Trésor a approuvé l'amélioration du programme de canneberges, ce qui permet d'augmenter la limite de financement permise par client pour la faire passer de 5 à 10 acres, permettant ainsi aux emprunteurs d'obtenir le financement nécessaire pour agrandir leur exploitation. L'Agence a présentement des prêts en cours dans le domaine de la canneberge totalisant 1,75 millions répartis parmi 8 clients pour un total de 47 acres en développement.

La connaissance et l'expérience de nos prêteurs agricoles dans le domaine des affaires permettent à l'Agence de fournir le soutien nécessaire aux producteurs traditionnels tout en pouvant contribuer à l'essor de l'agriculture en appuyant les initiatives dans le secteur des récoltes alternatives.

Fabrication et transformation

Le portefeuille de l'Agence dans le secteur F-T est très diversifié en termes d'industries qui offrent de l'emploi hautement spécialisé aux Insulaires et aux travailleurs qui s'installent à l'Île. Les industries visées sont, entre autres, le biochimique, la pharmaceutique, le biomédical, la production de véhicules de transport en commun, les produits de l'exploitation des ressources naturelles, la transformation des métaux et la production de meubles et de mobilier de bureau. En plus de cette diversité, une grande partie des revenus générés par ce secteur provient de l'extérieur de la province et, dans plusieurs cas, de marchés étrangers, ce qui contribue à notre commerce d'exportation et au PIB. Les investissements dans ce secteur ont augmenté de 7,5 per cent d'une année à l'autre avec des prêts totalisant 43 650 463 $ en fin d'année, soit 30 per cent du portefeuille total de l'Agence. La croissance comprend 26 nouvelles demandes pour un total de 9 000 000 $ dont 5,7 millions ont été approuvés.



Le portefeuille de ce secteur est en bonne posture puisque 83 per cent des clients présentent une évaluation des risques satisfaisante et seulement 17 per cent présentent un risque supérieur à la moyenne. D'un point de vue économique, étant donné la récente reprise économique, les prévisions dans ce secteur sont positives, ce qui renforcent les perspectives d'avenir.

Aérospatial

Les emprunts dans ce secteur économique ont toujours été compilés dans la section Fabrication et Transformation. Toutefois, comme ce secteur de l'industrie représente dorénavant une part importante du portefeuille de l'Agence (16 per cent), nous avons cru bon de lui accorder une section distincte. Les entreprises incluses dans ce secteur oeuvrent directement dans les domaines de l'aviation et de l'aérospatiale. Pour l'instant, l'Agence finance les entreprises oeuvrant dans les domaines suivants : la réparation et la remise en état des aéronefs à voilure fixe, la fabrication d'équipement neuf et le service de transport commercial de passagers.

Au cours de la dernière année, l'Agence a étudié cinq demandes de financement totalisant 2,3 millions dont trois demandes approuvées totalisant un peu plus d'un million, une demande retirée et une demande refusée. Dans l'ensemble, ce secteur du portefeuille n'a pas connu d'augmentation puisque les prêts en cours à la fin de l'année totalisaient un montant près du 22,5 millions du 31 mars 2001.

Les événements du 11 septembre ont eu un effet immédiat sur les entreprises dans les domaines de la fabrication d'équipement neuf et sur l'industrie aérienne elle-même. Les petits transporteurs et les transporteurs d'apport n'en sont pas sortis indemnes. Toutefois, les entreprises dans les secteurs de la réparation et de la remise en état, telles celles installées à Slemon Park, ont récupéré le plus gros de leurs affaires et ont même connu une augmentation de la main-d'oeuvre.

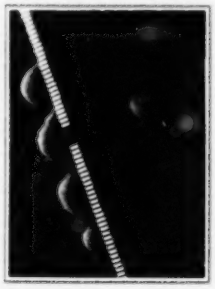
Bien que la surveillance des comptes de prêt de l'Agence fasse partie intégrante de la gestion continue du risque, le portefeuille de l'aérospatiale est surveillé plus étroitement compte tenu de l'instabilité de l'industrie et des prêts accordés pour autre chose que de la marchandise. L'état de ce portefeuille est semblable à celui du secteur Fabrication et Transformation, puisque 86 per cent du portefeuille est considéré à faible risque et que l'autre 14 per cent semble suivre une tendance vers un risque de crédit plus acceptable.

À ce jour, le gouvernement provincial a profité d'un retour sur son investissement en recrutant et en invitant des entreprises à s'installer à l'Î.-P.-É. en échange d'un dégrèvement fiscal et en créant des emplois à long terme qui entraînent des retombées économiques positives.

Technologie de l'information (TI)

Le secteur émergent des TI est toujours très instable et c'est pourquoi les institutions financières éprouvent de la difficulté à financer la dette des entreprises de ce secteur. Ces dernières peuvent devenir profitables très rapidement ou s'éteindre tout aussi rapidement étant donné l'importance de l'investissement de base dans les domaines de la gestion des clés, de la recherche et du développement et de la mise en marché.

La nature des éléments d'actifs pour lesquels on recherche du financement est généralement d'ordre de la propriété intellectuelle et autres intangibles, ce qui veut dire que l'approbation d'un prêt est grandement fondée sur le plan d'affaire, l'équipe de gestion et le caractère plausible de la profitabilité de l'entreprise en comparaison avec le financement traditionnel fondé sur les biens. Les entreprises dans le domaine des TI sont plus appropriées au capital de risque, à l'investissement providentiel et autres financements par fonds propres, qu'au financement par emprunt en raison de leur profil risque-rendement. Étant donné notre mandat d'encourager aussi le secteur des TI à l'Î.-P.-É., des prêts ont été accordés avec beaucoup de prudence et à un risque supérieur à la normale.



L'Agence a connu autant de succès que d'échecs dans ce secteur de l'industrie. Au cours de la dernière année, aucune demande n'a été déposée en provenance de ce secteur et le portefeuille est donc demeuré stable à 3 081 000 $ à la fin de l'année, soit 2 per cent du portefeuille total.

Avec la création de Technologies Î.-P.-É., la construction du Centre des technologies de l'Atlantique et la poursuite du développement de cette industrie à l'Î.-P.-É., nous avons l'intention de continuer à offrir un soutien financier aux entreprises qui, même à un risque plus élevé, semble avoir des projets stratégiques et répondre aux exigences d'octroi des prêts.

Tourisme

Le rapport annuel de Tourisme Î.-P.-É. pour l'exercice financier 2001 évalue qu'un total de 1,185 millions de touristes d'affaires et d'agrément ont dépensé 328,2 millions de dollars pendant l'année. L'Agence continue à appuyer ce secteur important de l'économie de l'Î.-P.-É. Pour la période visée, l'Agence a accordé 7 prêts pour immobilisations totalisant 1,2 millions, une augmentation de 10,9 per cent. Le total du secteur s'élève maintenant à un peu plus de 16 millions. La plupart de ces prêts ont servi à acquérir des installations existantes ou à effectuer des améliorations.

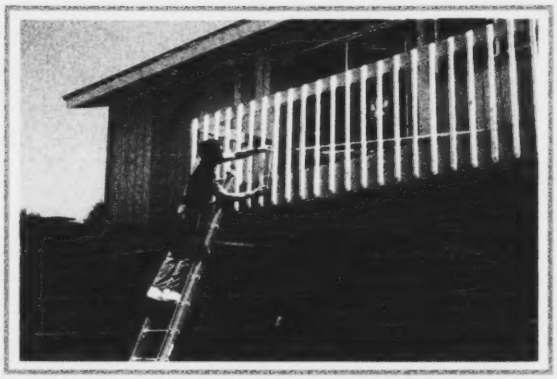
Au cours des trois dernières années, l'Agence a appuyé les projets du gouvernement en accordant du financement aux entreprises existantes pour leur permettre d'améliorer leurs installations et ainsi fournir un meilleur produit aux visiteurs. L'Agence a établi de nouvelles lignes directrices pour les emprunteurs. Ainsi, lors de l'achat d'une entreprise existante, celle-ci doit avoir obtenu au moins 2½ étoiles selon le classement du Programme de la classification des hébergements Canada Select. S'il s'agit d'un projet d'amélioration, ce classement doit être obtenu à l'achèvement des travaux.

Au cours des 6 dernières années, les dépenses en capital dans le secteur du tourisme connaissent une croissance soutenue. Les résultats d'une étude récente sur l'industrie du tourisme menée par l'Agence de promotion économique du Canada atlantique démontrent que le nombre de places d'hébergement offertes sur le marché suffit maintenant à la demande. Ainsi, le financement est maintenant limité aux rénovations et à l'améliorations d'unités existantes. Bien que l'Agence continue d'évaluer toutes les demandes au cas par cas, on s'attend à ce que la croissance du portefeuille dans ce domaine soit principalement liée aux rénovations effectuées par des intervenants actuels étant donné la politique fédérale.

Petites entreprises

Lors de l'exercice financier 2001-2002, l'Agence a accordé 14 prêts dans ce secteur, pour un total de 2 635 000 $. Des demandes totalisant 2 015 000 $ ont soit été refusées, soit été retirées par le demandeur. Tous les prêts accordés l'ont été pour des immobilisations.

Dans l'ensemble, le portefeuille des petites entreprises s'est accru de 8 per cent au cours de l'exercice financier 2001 pour atteindre un total de prêts en cours de 14 034 545 $ divisé entre 68 emprunteurs.



Appendix A

Corporate Directory

As of March 31, 2002

Executive

William R. Noonan
Chairman

John W. McAleer
Vice-Chairman

Peter A. Wilson *
Secretary-Treasurer and Chief Executive Officer

Members of the Board

George Beck
Montague, PE

John J. Howatt
North Wiltshire, PE

Mary MacLean
Stratford, PE

Rodney McInnis
Tignish, PE

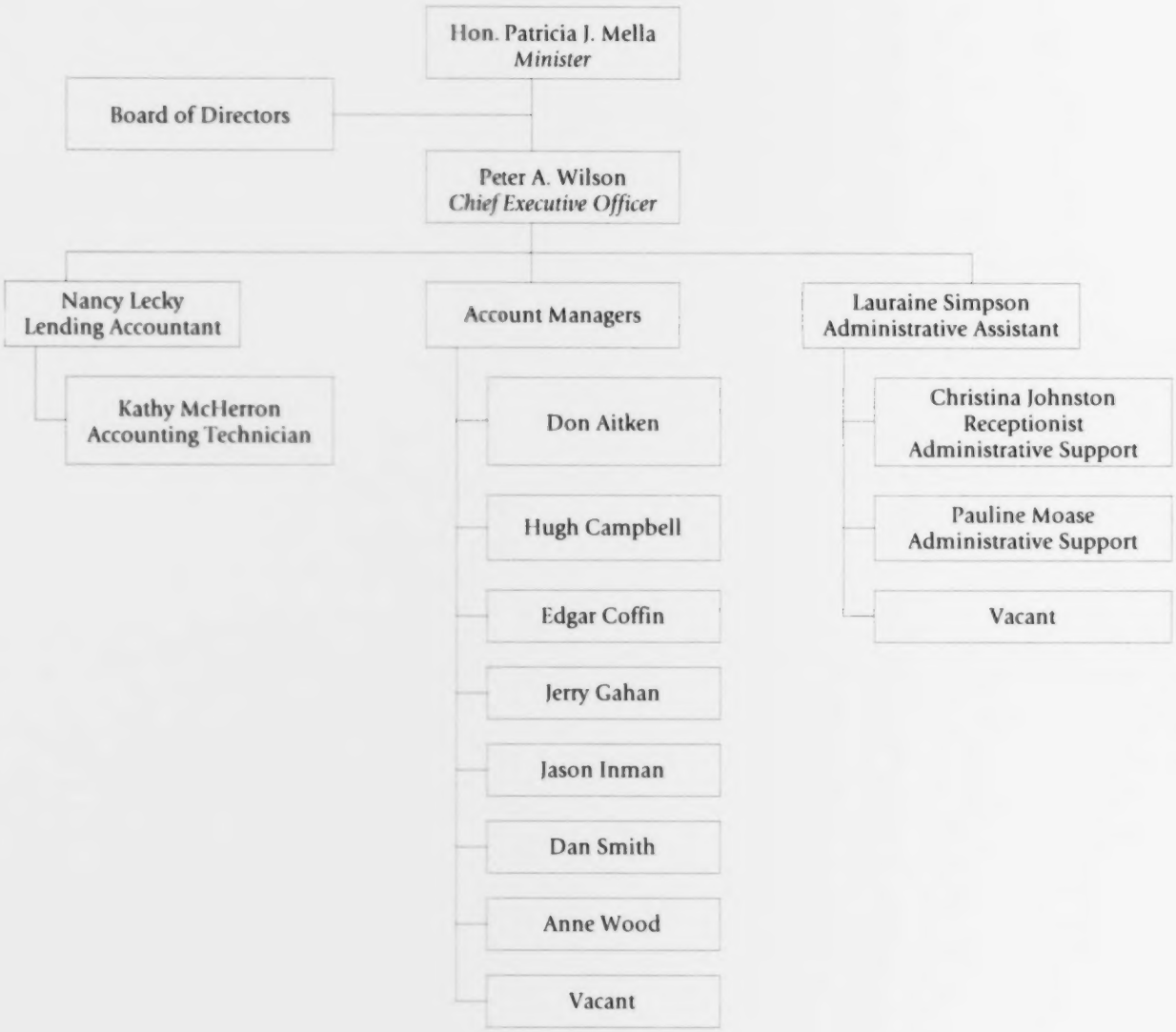
Michael L. O'Brien, FCA
Deputy Provincial Treasurer

Paul R. Jelley
Deputy Minister
Department of Development and Technology

* Non-voting

Appendix B

Organizational Chart



Appendix C

Auditor's Report

ARSENAULTBESTCAMERONELLIS
CHARTERED ACCOUNTANTS

ArsenaultBestCameronEllis
Prince Edward Place
80 Water Street
PO Box 455
Charlottetown, Prince Edward Island
Canada C1A 7L1
Telephone (902) 368-3100
Fax (902) 566-5074

May 3, 2002

Auditors' Report

To the Board of Directors

We have audited the balance sheet of **P.E.I. Lending Agency** as at March 31, 2002 and the statements of earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Arsenault Best Cameron Ellis

Chartered Accountants

Appendix D

Financial Statements

P.E.I. Lending Agency

Balance Sheet

As at March 31, 2002

	2002 $	2001 $
Assets		
Cash	567,566	258,886
Accounts receivable (note 10)	1,343,437	13,284
Due from Province of Prince Edward Island (note 3)	8,189,426	6,402,326
Loans receivable (note 4)	135,397,448	126,404,676
Leased property (note 5)	2,225,241	2,677,866
Property holdings (note 6)	239,816	-
	147,962,934	135,757,038
Liabilities		
Accounts payable and accrued liabilities (note 10)	2,810,984	283,011
Due to Province of Prince Edward Island (note 3)	2,249,698	1,724,567
Notes payable (note 7)	142,074,128	133,023,795
	147,134,810	135,031,373
Contingent liabilities (note 8)		
Surplus		
Retained earnings – Beginning of year	725,665	424,858
Excess revenue for the year	102,459	300,807
Retained earnings – End of year	828,124	725,665
	147,962,934	135,757,038

Approved by the Corporation

Director

Director

P.E.I. Lending Agency

Statement of Earnings

For the year ended March 31, 2002

	2002		2001
	Budgeted (Unaudited) $	**Actual $**	**Actual $**
Revenue			
Grants from Province	783,900	733,900	786,400
Interest from borrowers (note 10)	10,295,148	10,603,007	9,102,645
Interest from deposits	30,000	37,495	49,260
Agricultural leases	200,004	214,107	318,817
Service fees	60,000	133,824	174,212
Post-receivership income	-	-	36,766
	11,369,052	11,722,333	10,468,100
Expenses			
Office supplies and printing	19,596	26,179	24,162
Telecommunications	15,504	13,216	11,145
Rent and occupancy	107,796	104,150	104,160
Meetings and hosted conferences	3,996	3,063	3,796
Computer equipment	15,000	5,444	9,996
Advertising and promotion	3,000	5,023	6,215
Office equipment rentals	9,504	6,203	5,546
Library and subscriptions	1,200	2,169	2,368
Repairs and maintenance	6,000	16,633	2,360
Miscellaneous	1,500	3,196	3,239
Professional services	67,854	37,904	49,939
Salaries and benefits	825,156	808,870	782,081
Travel	58,104	20,734	26,909
Interest (note 10)	8,361,696	8,317,392	7,410,809
Provision for possible losses	1,924,212	2,249,698	1,724,568
	11,419,848	11,619,874	10,167,293
Excess revenue for the year	(50,796)	102,459	300,807

P.E.I. Lending Agency

Statement of Cash Flows

For the year ended March 31, 2002

	2002 $	2001 $
Cash provided by (used in)		
Operating activities		
Excess revenue for the year	102,459	300,807
Item not affecting working capital		
Increase in due from Province of Prince Edward Island – allowance for possible losses	(1,787,100)	(1,000,786)
	(1,684,641)	(699,979)
Net change in non-cash working capital items		
– increase in accounts receivable	(1,330,153)	(6,978)
– increase (decrease) in accounts payable and accrued liabilities	2,527,973	(25,704)
– increase in due to Province of Prince Edward Island – current oerations	525,131	95,097
	38,310	(637,564)
Financing activities		
Decrease in leased property (net)	452,625	2,486,124
Increase in loans receivable (net)	(8,992,772)	(39,282,817)
Increase in notes payable	30,319,000	57,359,000
Retirement of notes payable	(21,268,667)	(20,173,722)
	510,186	388,585
Investing activities		
Additions to and purchases of property holdings	(325,409)	(76,867)
Reductions of and proceeds on disposal of property holdings	85,593	219,133
	(239,816)	142,266
Change in cash	308,680	(73,846)
Cash – Beginning of year	258,886	332,732
Cash – End of year	567,566	258,886

P.E.I. Lending Agency

Notes to Financial Statements

March 31, 2002

1 Status of the corporation

P.E.I. Lending Agency is a Crown corporation established by a proclamation of the Lending Agency Act dated December 31, 1998. The Agency's financial results are included in the public accounts of the Province of Prince Edward Island.

2 Summary of significant accounting policies

These financial statements have been prepared in accordance with generally accepted accounting principles.

a) Due from (to) the Province of Prince Edward Island

i. Current operations

The budgeted provision for possible losses expense is established as part of the normal budget process and is updated to reflect known changes as they become evident during the year. The actual provision for possible losses recorded in the company's accounts is expensed with a corresponding increase recorded in the allowance for possible losses in the balance sheet.

An amount equal to the annual provision for possible losses (expense or recovery) is recorded as an increase in "Due to Province of Prince Edward Island – Current Operations" and a corresponding increase in "Due from Province of Prince Edward Island – Allowance for Possible Losses". The Due to Province of Prince Edward Island is normally repaid to the province on an annual basis.

ii. Allowable for possible losses

An amount equal to the annual provision for possible losses (expense or recovery) is recorded as an amount "Due from the Province of Prince Edward Island – Allowable for Possible Losses" and a corresponding increase in the amount "Due to Province of Prince Edward Island – Current Operations". The "Due from Province of Prince Edward Island – Allowance for Possible Losses" is reduced when a write-off of a foreclosed project is recognized by both P.E.I. Lending Agency and the Province, with notes payable reduced correspondingly.

b) Loans receivable

Working capital loans are issued to qualified lenders and are recorded at cost less an allowance for possible losses. These loans bear interest at the Toronto Dominion Bank prime rate plus 1 ¾% to 2 ¾% and are repayable at the end of each sector's operating season or specific project.

Mortgage loans consist of loans issued to Prince Edward Island enterprises for purposes of acquiring capital assets. These loans are recorded at cost less an allowance for possible losses. These loans are issued at long-term interest rates and are repayable over various terms to a maximum of 20 years with interest rates ranging from 7.5% to 12.25%.

Interest income is recorded on the accrual basis until such time as the loan is classified as non-current. A loan is classified as non-current when the Corporation has been unsuccessful in its attempt to collect arrears payments or have the loan satisfied.

An impaired loan is a loan in arrears in excess of 120 days or where in management's opinion there is no longer reasonable assurance as to the timely collection of the full amount of the principal and interest.

c) Allowance for possible losses

An allowance is maintained which is considered adequate to absorb all credit losses and off-balance sheet items including guarantees. The allowance is deducted from the applicable asset on the balance sheet, except for guarantees. The allowance for guarantees of $50,000 (2001 – $50,000) is included in accounts payable.

The allowance consists of specific and general provisions.

Specific provisions include the accumulated allowances for losses on particular assets required to reduce the book values to estimated realizable amounts. Specific provisions total $7,450,454 (2001 – $5,840,820).

The company reviews its loan portfolios and leased properties on an ongoing basis to assess whether a loan should be classified as impaired, or an allowance or write-off recorded.

A variety of methods are used to determine the amount expected to be recovered from impaired loans and property holdings, including estimated future cash flows and the estimated fair value of the underlying security and value of any collateral security taken.

A general provision of $748,974 (2001 – $1,007,773) includes accumulated allowances for losses which are prudential in nature and cannot be specifically identified. The general provision is based on past performance of similar loans, the level of the specific provision, management's judgement, the economic climate and the maturity and financial strength of the investee.

d) Leased property

Leased property represents the cost to acquire agricultural property based on appraised market value at the inception of the lease less an allowance for possible losses. Operating leases are negotiated with the lessee for a maximum of 5 years at a rate of interest tied to commercial lending rates. The lease rates currently range from 7.5% to 11.75%. The lease may be renewed for one five-year term after which time the lessee must repurchase the property.

Lease income is recorded on an accrual basis until the lease is repaid or the property is transferred to property holdings – foreclosed projects. When a lease is in arrears in excess of 120 days or when in management's opinion there is no longer reasonable assurance of the timely collection of the full amount of principal and interest, the lease is classified as impaired.

e) Property holdings and amortization

Office furniture and equipment and computer equipment are fully expensed in the year of acquisition. The amount expensed during the year ended March 31, 2002 was $8,330 (2001 – $11,607).

Foreclosed projects are carried at the lower of cost of the impaired asset prior to realization of the related security and the underlying estimated realizable value of the security.

The reduction from cost to estimated realizable value is recorded as an allowance for possible losses.

f) Pension liabilities

The Corporation's staff are members of the Province of Prince Edward Island pension plan. The pension plan obligation is a liability of the Province and not the Corporation and no liability for these costs has been accrued by the Corporation at March 31, 2002.

g) Estimated realizable value of financial instruments

Estimated realizable value (fair value) is subjective in nature requiring a variety of valuation techniques and assumptions. The company's financial instruments are not exchangeable and it is difficult, and often not practical, to determine their estimated realizable value. Where it is possible to estimate realizable value, the company assumes that it will not sell the assets or the liabilities, taking into account only changes in credit risk as credit risk is the main cause of change in the estimated realizable value of the company's financial instruments. Credit risk is defined as the risk that the note holder will fail to discharge an obligation in whole or in part resulting in a financial losses to this company.

h) Management estimates

The presentation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from those reported.

3 Due from (to) the Province of Prince Edward Island

	2002 $	2001 $
Current operations		
Balance – Beginning of year	(1,724,567)	(1,629,470)
Current year's actual provision for possible losses	(2,249,698)	(1,724,567)
Repaid to the province	1,724,567	1,629,470
Balance – End of year	(2,249,698)	(1,724,567)
Allowance for possible losses		
Balance – Beginning of year	6,402,326	5,401,540
Current year's expense	2,249,698	1,724,567
Repaid to the province	600,000	-
	9,252,024	7,126,107
Less: write-offs during the year	1,062,598	723,781
Balance – End of year	8,189,426	6,402,326

4 Loans receivable

					2002	2001
	Total $	Impaired loans included in total $	Allowance for possible losses General $	Specific $	Net $	Net $
Working capital loans	27,072,866	16,060,235	464,184	2,758,206	23,850,476	23,484,957
Mortgage loans receivable						
Agriculture	9,019,032	804,001	59,790	100,000	8,859,242	7,389,716
New farmer	33,740	-	-	-	33,740	58,415
Tourism	16,007,838	1,586,720	100,000	111,300	15,796,538	14,160,641
Manufacturing and processing	30,029,041	55,101	70,000	55,000	29,904,041	25,342,782
Fisheries	6,974,868	1,292,718	-	110,000	6,864,868	6,999,305
Aquaculture	2,329,533	1,062,434	-	902,000	1,427,533	3,129,135
Small business	12,891,587	-	55,000	-	12,836,587	11,706,304
Blueberry	10,688,359	3,449,169	-	1,450,000	9,238,359	8,014,180
Cranberry	1,404,259	497,281	-	200,000	1,204,259	583,776
Strategic economic development	57,491	57,491	-	57,000	491	160,623
2000 Hog Program	68,119	-	-	-	68,119	281,390
Aerospace	21,038,275	-	-	-	21,038,275	22,125,276
Information Technology	2,878,476	-	-	-	2,878,476	2,835,416
Other	2,775,432	1,895,393	-	1,378,988	1,396,444	185,802
	116,196,050	10,700,308	284,790	4,364,288	111,546,972	102,919,719
	143,268,916	26,760,543	748,974	7,122,494	135,397,448	126,40,676

5 Leased property

					2002	2001
	Total $	Impaired loans included in total $	General provision $	Specific provision $	Net $	Net $
Agricultural leases	2,330,741	902,224	-	105,500	2,225,241	2,677,866

4 Loans receivable

					2002	2001
			Allowance for possible losses			
	Total $	Impaired loans included in total $	General $	Specific $	Net $	Net $
Working capital loans	27,072,866	16,060,235	464,184	2,758,206	23,850,476	23,484,957
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Aerospace	21,038,275	-	-	-	21,038,275	22,125,276
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	143,268,916	26,760,543	748,974	7,122,494	135,397,448	126,40,676

5 Leased property

					2002	2001
	Total $	Impaired loans included in total $	General provision $	Specific provision $	Net $	Net $
Agricultural leases	2,330,741	902,224	-	105,500	2,225,241	2,677,866

6 Property holdings

	2002 $	2001 $
Foreclosed projects – land, buildings and equipment held for resale	402,276	76,867
Less: Allowance for possible losses	162,460	76,867
	239,816	-

7 Notes payable

	2002 $	2001 $
Short-term promissory notes	10,000,000	12,125,000
Long-term	132,074,128	120,898,795
	142,074,128	133,023,795

Short-term promissory notes are issued to the Province of Prince Edward Island with interest set monthly based on the Province's short-term lending rate in existence at the first day of the month. These notes are renewed on an ongoing basis with interest payable monthly.

The notes payable – long-term are issued to the Province of Prince Edward Island and have various repayment terms and interest rates ranging from 5.52% to 13.65%.

The aggregate amount of principal payments required in each of the next five years to meet retirement provisions is as indicated below. Certain notes becoming due during the next five years have been assumed to be refinanced under similar terms:

	$
Year ending March 31, 2003	8,942,901
2004	8,367,909
2005	9,665,793
2006	5,570,668
2007	3,327,087

8 Contingent liabilities

As of March 31, 2002, P.E.I. Lending Agency was contingently liable under loan guarantees in the amount of $150,060 (2001 – $245,721) for which P.E.I. Lending Agency has included $50,000 in its allowance for possible losses. This portion of the allowance for possible losses is included in accounts payable.

9 Commitments

The P.E.I. Lending Agency loans approved but not disbursed at March 31, 2002 amount to $3,240,000 (2001 – $12,978,000).

10 Related party transactions

Balance Sheet

Included in accounts receivable is $1,230,987 (2001 – $13,284) due from the Province of Prince Edward Island.

Included in accounts payable and accrued liabilities is $2,173,245 (2001 – $1,269) in net loan payments and $502,228 (2001 – $167,333) in accrued interest payable to the Province of Prince Edward Island.

Statement of earnings

Included in expenses is $8,317,392 (2001 – $7,410,809) in interest paid/payable to the Province of Prince Edward Island.

The above transactions were recorded in the normal course of operations and measured on the same terms as transactions with unrelated parties.

11 Operating Lease

The minimum annual lease payments required in each of the next three years under an operating lease expiring March 31, 2005 are as follows:

	$
Year ending March 31, 2003	40,588
2004	40,588
2005	40,588

12 Interest rate risk

The following table sets out the assets and liabilities on the earlier of contractual maturity or repricing date. Use of the table to derive information about the Agency's interest rate risk position is limited by the fact that borrowers may choose to terminate their financial instruments at a date earlier than contractual maturity or repricing date. Examples of this include mortgages, which are shown at contractual maturity but which could prepay earlier.

	Within 1 year $	After 1 year but within 5 years $	After 5 years $	Not interest rate sensitive $	Provision for possible losses $	Total $
Assets						
Cash	567,566	-	-	-	-	567,566
Accounts receivable	-	-	-	1,343,437	-	1,343,437
Due from Province of Prince Edward Island	-	-	-	8,189,426	-	8,189,426
Loans receivable	34,545,239	88,763,939	19,959,738		(7,871,468)	135,397,448
Leased property	2,015,741	315,000	-	-	(105,500)	2,225,241
Property holdings	-	-	-	402,276	(162,460)	239,816
Total assets	37,128,546	89,078,939	19,959,738	9,935,139	(8,139,428)	147,962,934
Liabilities and surplus						
Accounts payable and accrued liabilities	-	-	-	2,760,984	50,000	2,810,984
Due to Province of Prince Edward Island	-	-	-	2,249,698	-	2,249,698
Notes payable	15,840,289	73,029,700	53,204,139	-	-	142,074,128
Surplus	-	-	-	828,124	-	
Total liabilities and surplus	15,840,289	73,029,700	53,204,139	5,838,806	50,000	147,962,934
Interest rate sensitivity gap	21,288,257	16,049,239	(33,244,401)	4,096,333	(8,189,428)	-
Cumulative interest rate sensitivity gap	21,288,257	37,337,496	4,093,095	8,189,428	-	-

Appendix E

Clarification to Note 4 of Financial Statement

Column 1 – Total
Represents the total loan/leases divided by economic sector. These balances represent the balance owing at March 31, 2002, before any provision for loss. The "other" category is comprised of loans classified as non-current, wherein interest is no longer being accrued.

Column 2 – Impaired
Represents loans in arrears in excess of 120 days, or where in management's opinion there is no longer reasonable assurance as to the timely collection of the full amount of the principal and interest. Management's assessment is based on the extent of the arrears, the value of collateral security, the cash flow of the borrower and management's judgement. The impaired loans are included in the total loan/leases in Column 1.

Column 3 – General Provision
A provision for loss based on management's judgement by sector whereby adverse economic trends suggest losses may occur, but where such losses cannot yet be determined on an item-by-item basis. Management takes into consideration past performance of similar loans, the level of specific provision and the existing economic climate.

Column 4 – Specific Provision
Indicates the provision required to reduce particular assets from their book value to their estimated realizable value. Management takes into account the estimated future cash flow of the borrower and the estimated fair value of the collateral security held of the borrower.

Column 5 – Net
Indicates the total loan/lease (Column 1), less the general and specific provisions for loss (columns 3 and 4).

Appendix F

Application Statistics

Sector	Total Received		Amount Approved		Declined/Withdrawn	
	No.	Amount	No.	Amount	No.	Amount
Agriculture	40	$ 13,521,101	34	$ 10,018,601	7	$ 3,502,500
Fisheries	18	1,515,885	18	1,515,885	0	0
Manufacturing and Processing	26	9,050,208	18	5,720,708	8	3,329,500
Aerospace	5	2,300,000	3	1,050,000	2	1,250,000
Information Technology	0	0	0	0	0	0
Small Business	29	4,649,974	14	2,634,474	15	2,015,500
Shellfish	2	102,400	2	102,400	0	0
Blueberry	2	50,000	2	50,000	0	0
Cranberry	1	147,400	1	147,400	0	0
Tourism	7	1,278,000	6	1,203,000	1	75,000
Fur Program	10	371,695	10	371,695	0	0
Strategic Economic Development	6	13,750,000	3	3,650,000	3	10,100,000
Total	**146**	**$ 46,736,663**	**111**	**$ 22,814,163**	**36**	**$ 20,272,500**

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